tax talks

TOPIC: Tax Considerations for Small Businesses

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BLOCK Advisors
Tax & Business Services

About Me

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5 years

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Starting a Business

Hobby vs. Business

Hobby – limit on deductions, no loss allowed
Business – no loss limitation, SE tax

IRS uses nine factors to determine

1. **Manner in Which the Taxpayer Carries On the Activity.** The trade or business must be carried on regularly and in a continuous manner.
2. **The Expertise of the Taxpayer or His Advisors.** The owner must have and use the necessary skills and knowledge to run a successful business.
3. **Time and Effort Expended by the Taxpayer.** How the time is spent is more important than the amount of time spent on the activity.
4. **Expectation that Assets Will Appreciate in Value.** The taxpayer may intend to derive a profit from the operation of the activity and overall profit will result
5. **Taxpayer's Success in Other Activities.**
6. **Taxpayer's History of Income or Losses.** A series of losses incurred during the startup stage of an activity does not necessarily indicate the lack of a profit objective, but it may so indicate if the losses continue beyond the customary startup period and are not otherwise explainable as due to customary business risks.
7. **Amount of Occasional Profit, If Any.** A profit objective is strongly indicated where the taxpayer has experienced a series of profitable years.
8. **Financial Status of the Taxpayer.** The presence of income from other sources does not, by itself, negate a profit objective.
9. **Elements of Personal Pleasure or Recreation.** Profit need not be the only objective, and personal motives may coexist with an actual and honest intent to derive a profit.

City of Seattle

206-684-8484
https://www.seattle.gov/licenses/get-a-business-license

Business License
Trade License (Permit)
Business and Occupation (B&O) Tax
business type dependent

King County

206-296-0100
http://www.kingcounty.gov/services/business/licenses.aspx

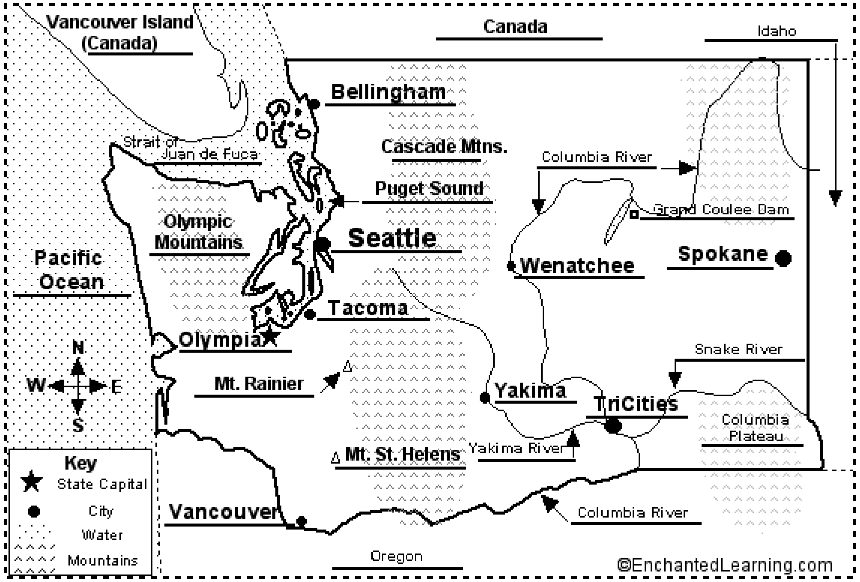
Business License
- only required for specific businesses

Personal Property Tax
- anything over $7,500
- approximately $1 for every $1,000 above threshold

Taxi, For-Hire and TNC (Transportation Network Company)
- apply for a permit

Washington State

1-800-647-7706
http://bls.dor.wa.gov/



Department of Revenue (DOR)

- B&O Tax
  - business type dependent

Secretary of State

- apply for LLC ($200)

United States

Department of the Treasury
Internal Revenue Service (IRS)

Business and Individual income reported on Form 1040

- Various sources of income, domestic and foreign
  - Examples:
    - W-2
    - Interest (1009-INT)
    - Dividend (1099-DIV)
    - Retirement (Form 1099-R)
    - Social Security (Form SSA-1099)
    - Sole Proprietorship (Schedule C)
    - Partnership (Schedule K-1 (Form 1065))
    - Rental (Schedule E)
    - Capital Gains and Losses (Schedule D)
    - Farming (Schedule F)

Department of the Treasury
Internal Revenue Service

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Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2016** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2016, or other tax year beginning , 2016, ending , 20 | See separate instructions.

Your first name and initial	Last name	Your social security number
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
Foreign country name	Foreign province/state/county	Foreign postal code

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ **Spouse**

Boxes checked on 6a and 6b

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)

Dependents on 6c not entered above

d Total number of exemptions claimed

Add numbers on lines above ▶

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Line	Description		Line	Amount
7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	
8a	**Taxable** interest. Attach Schedule B if required		8a	
b	**Tax-exempt** interest. **Do not** include on line 8a	8b		
9a	Ordinary dividends. Attach Schedule B if required		9a	
b	Qualified dividends	9b		
10	Taxable refunds, credits, or offsets of state and local income taxes		10	
11	Alimony received		11	
12	Business income or (loss). Attach Schedule C or C-EZ		12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13	
14	Other gains or (losses). Attach Form 4797		14	
15a	IRA distributions	15a	b Taxable amount 15b	
16a	Pensions and annuities	16a	b Taxable amount 16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18	Farm income or (loss). Attach Schedule F		18	
19	Unemployment compensation		19	
20a	Social security benefits	20a	b Taxable amount 20b	
21	Other income. List type and amount		21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22	

Types of Business Formation (Business Entity)

Sole Proprietorship
- Schedule C
- income reported on Form 1040

General Partnership
- partnership return Form 1065
- income reported on Form K-1

S-Corporation
- s-corporation return Form 1120S
- income reported on Form K-1

C-Corporation
- corporate return Form 1120
- income reported on W-2

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

▶ Information about Schedule C and its separate instructions is at *www.irs.gov/schedulec*.

▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2016

Attachment Sequence No. **09**

Name of proprietor | **Social security number (SSN)**

A Principal business or profession, including product or service (see instructions) | **B Enter code from instructions** ▶

C Business name. If no separate business name, leave blank. | **D Employer ID number (EIN),** (see instr.)

E Business address (including suite or room no.) ▶

City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2016, check here . . . ▶ ☐

I Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions) . . . ☐ **Yes** ☐ **No**

J If "Yes," did you or will you file required Forms 1099? . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . ▶ ☐	1	
2	Returns and allowances . . .	2	
3	Subtract line 2 from line 1 . . .	3	
4	Cost of goods sold (from line 42) . . .	4	
5	**Gross profit.** Subtract line 4 from line 3 . . .	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . .	6	
7	**Gross income.** Add lines 5 and 6 . . . ▶	7	

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Part II	Expenses. Enter expenses for business use of your home only on line 30.						
8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance	21	
				22	Supplies (not included in Part III)	22	
				23	Taxes and licenses	23	
				24	Travel, meals, and entertainment:		
14	Employee benefit programs (other than on line 19)	14		a	Travel	24a	
15	Insurance (other than health)	15		b	Deductible meals and entertainment (see instructions)	24b	
16	Interest:			25	Utilities	25	
a	Mortgage (paid to banks, etc.)	16a		26	Wages (less employment credits)	26	
b	Other	16b		27a	Other expenses (from line 48)	27a	
17	Legal and professional services	17		b	**Reserved for future use**	27b	

28 **Total expenses** before expenses for business use of home. Add lines 8 through 27a ▶ 28

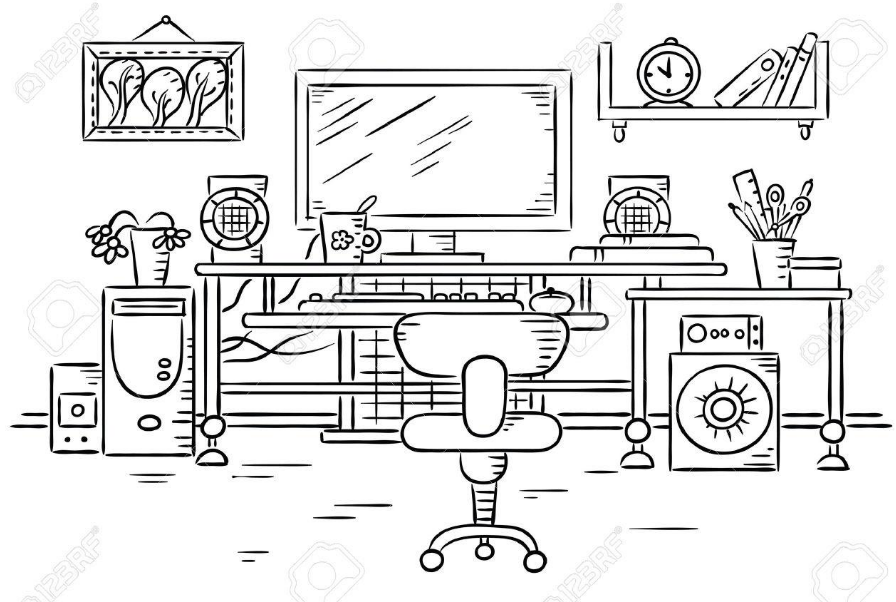
29 Tentative profit or (loss). Subtract line 28 from line 7 . . . 29

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions).
Simplified method filers only: enter the total square footage of: (a) your home: ______
and (b) the part of your home used for business: ______ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 . . . 30

31 **Net profit or (loss).** Subtract line 30 from line 29.
• If a profit, enter on both **Form 1040, line 12** (or **Form 1040NR, line 13**) and on **Schedule SE, line 2.** (If you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3.** 31

Parts III, IV & V have to do with inventory, vehicle expense and other expenses

Home Office Deduction



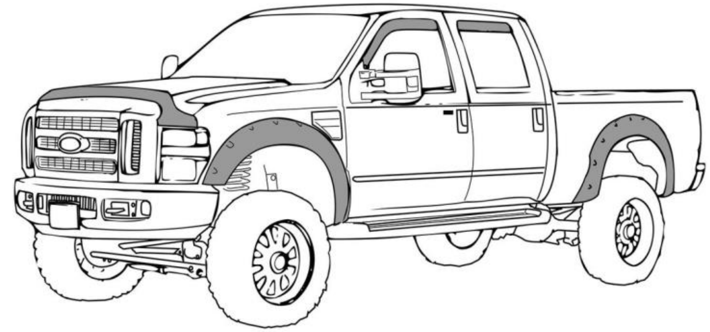
Regular and exclusive use
home owners and renters

Two methods to calculate

Actual
use percentage space used X home expenses
Example: office is 200 sq. ft., home is 2,000 sq. ft.
10% of heating, electricity, mortgage, insurance and depreciation
recordkeeping intensive, burdensome

Simplified method (Safe Harbor)
square footage X $5 to max of 300 sq. ft.
no recordkeeping required

Vehicle Deduction



Listed Property

cars, computers, cameras

Personal vs. Business percentage

Two methods to calculate

Actual method

percentage business use X actual costs

Example: total mileage for year 12,000, business mileage 9,000

75% of oil change, tires, insurance, gasoline and depreciation

recordkeeping intensive, burdensome

Simplified method

$.54 X business miles driven

recordkeeping is minimal

Recordkeeping

Substantiation

Keep records for at least four years

For vehicle: purchase price, date purchased, date put into service, total mileage, business mileage, repairs

For home office: purchase price, date purchased, date put into service, total sq. ft., repairs and improvements

For meals and travel: receipts, receipts, receipts, names, dates, topics discussed, business purpose

Hiring your Kids

Child must provide legitimate services

Under 18 years of age

Kids can contribute to IRA or Roth IRA

No FICA or Medicare if your business is a:

Sole proprietorship (owned by parent) or

Partnership (owned only by parents)

Retirement Planning

Choice of plans available for self-employed

SEP-IRA
SIMPLE IRA
SIMPLE 401(k)
SOLO 401(k)
Defined Contribution Plan

For more information, or to schedule an appointment, please visit www.blockadvisors.com or call 206-441-1040.

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